

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
September 20, 2002
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Alan Maguire, Chairman, Arizona State Retirement System Board, called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call

Present: Mr. Alan Maguire, Chairman
Mr. Bonnie Gonzalez, Vice Chairman
Mr. Jim Bruner
Dr. Chuck Essigs
Mr. Karl Polen
Mr. Ray Rottas
Mr. N. Carl Tenney

Excused: Ms. Charlotte Borchert
Mr. Norman Miller

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the August 16, 2002, Regular Meeting of the ASRS Board

Motion: Ms. Bonnie Gonzalez moved to approve the minutes of the August 16, 2002, regular meeting of the ASRS Board.

Mr. Ray Rottas seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

3. Board Approval of Consent Schedule

Motion: Mr. Jim Bruner moved to approve the consent agenda as written:
A. Approval of Retirements, Refunds and Death Benefits
B. Approval of System Transfers

- C. Application and Agreements with the Following Employers:
 - SC Jensen Corp., dba Intelli-School Charter School
 - PAS Charter Inc., dba Intelli-School Charter School
 - Flagstaff U.S.D., dba Killip Dual Language Charter Middle School
 - Gila Educational Group, dba Gila Preparatory
- D. Approval of the Contract Extension of the Following Investment Managers:
 - i) Bank of Ireland - International Active Equity
 - ii) Brandes Investment Partners - International Active Equity
 - iii) Capital Guardian - International Active Equity
 - iv) Bank of New York - International ADR Enhanced Passive
 - v) Barclays Global Investors - International Passive
 - vi) BlackRock Financial Management - Fixed Income Active
 - vii) JP Morgan - Fixed Income Active
 - viii) Western Asset Management Company - Fixed Income Active
 - ix) Barclays Global Investors - Fixed Income Passive
- E. Approval of Lump Sum Distribution of Benefit Increase to Ruth Knight to Qualify for Medical Assistance through AHCCCS

Mr. Ray Rottas seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

4. Presentation, Discussion, and Appropriate Action Regarding the Tentative Schedule, Plan of Action, and Position Description in Connection with the Selection of a New Director

Mr. Alan Maguire, Chairman, briefed the Board and the public on the status of the Director search. He stated that late August, early September, the Board engaged in a process to hire an executive search firm. As a result of that process, the Board agreed at a special Board meeting on September 6, 2002, to hire MAXUMUS Inc., a large, well know search firm with extensive executive search experience. Mr. Norm Roberts will be the person in charge of the ASRS's search.

Mr. Maguire distributed the schedule of events for the Director search and explained the recruitment process. A draft copy of the Director profile, created by Mr. Roberts after conversations he had with ASRS Board members and staff, was also distributed.

Motion: Ms. Bonnie Gonzalez moved to approve the recruitment process and tentative recruitment schedule, subject to the identification of specific meeting dates.

Mr. Jim Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

Motion: Ms. Bonnie Gonzalez moved to approve the distribution of the recruitment profile, subject to any final revisions recommended by Board members.

Mr. Carl Tenney seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

5. Director's Report

Mr. Fred Stork, Attorney General, updated the Board on litigation that the ASRS is currently involved in as the defendant. The three cases are: *Burke v. Arizona State Retirement System, State of Arizona, Arizona Board of Regents, Torres, et al. v. State of Arizona*, and *Rabago v. State of Arizona; Arizona State Retirement System Maricopa County Superior Court No. CV2002-012029*.

Mr. Richard Stephenson, Deputy Director, External Affairs and Ms. Susan Alandar, ASRS Rule Writer, explained the policy, rules and rulemaking process and how it affects the ASRS. Currently, the ASRS is embarking upon a rulemaking process to comply with the Administrative Procedure Act, A.R.S. § 41-1001.

Mr. Stephenson introduced the new ASRS Legislative Liaison, Mr. Robert Smook.

6. Presentation, Discussion and Appropriate Action Regarding the Notice of Rule Making Docket Opening

Mr. Ray Rottas, Chairman of the Board Policy and Procedure Committee explained the need for the review of the ASRS rules and policies. Mr. Rottas also explained that to facilitate this review, it is necessary to open a rule-making docket.

Motion: Mr. Ray Rottas moved to approve the notice of rulemaking docket opening for publication by the Secretary of State.

Mr. Jim Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding Amending the Fiscal 2004 Budget Request to Include Funding for a Second Attorney to Assist with the Rule Making Process and to Assist Fred Stork with Other Duties

Ms. Gonzalez stated that the ASRS Rules Writer has identified 116 possible Board rules plus substantive policy statements that need review pursuant to the Administrative Procedures Act. The rules process requires the active participation of an attorney. In addition to the rules writing process, other legal matters and daily technical legal questions have increased significantly over the recent years. Ms. Gonzalez indicated that the Budget and Audit Committee feels that there is a need to contract with the Attorney General's office for an additional attorney to assist Mr. Fred Stork with ASRS matters.

Motion: Ms. Bonnie Gonzalez moved that the Board hire an additional attorney in fiscal year 2003 for up to \$80,000 and amend the fiscal 2004 and 2005 budget request by deleting

the request for \$50,000 for one paralegal and insert a request for up to \$128,000 for one additional attorney.

Dr. Chuck Essigs seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding the Performance of the Specialty Managers for the Period Ending June 30, 2002

Mr. Terry Dennison, Principal, Mercer Investment Consulting, reported on the investment manager's performance for Barclays Global Investors (BGI) for the period ending June 30, 2002.

Kenneth F. Kroner, PhD, Managing Director, Global Advanced Active Strategies and David Lissek, Principal, Institutional Client Relations, reported on BGI's Performance for the period ending June 30, 2002.

Total Fund Performance for Periods Ending June 30, 2002

<u>As of 06/30/02</u>	<u>2Q02</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Inception</u>
US TAA Net Return	-13.37%	-17.97%	-8.98%	3.87%	11.09%
Benchmark Return	-12.90%	-15.10%	-6.90%	6.00%	13.70%
<i>Total Value Added vs. the Benchmark</i>	-0.47%	-2.87%	-2.08%	-2.13%	-2.61%
S&P 500 Return	-13.40%	-17.99%	-9.18%	3.66%	11.37%
<i>Total Value Added vs. the S&P 500 Index</i>	0.03%	0.02%	0.20%	0.21%	-0.28%

Inception of 100/0 TAA: April 1991

Mr. Paul Matson, Chief Investment Officer stated that the ASRS and the Investment Review Committee are currently conducting a TAA search, which includes reviewing the BGI product in addition to several others.

9. Presentation, Discussion and Appropriate Action Regarding Securities Lending

Mr. Terry Dennison, Principal, Mercer Investment Consulting, reported on the background of securities lending, how it works, and the ASRS program. The ASRS uses Mellon Bank as its securities lending agent. Mellon Bank began securities lending in 1980, and has 68 approved borrowers. The ASRS approves borrowers from Mellon's list and may also recommend others. Credit limits are pre-established and coded into Mellon's system, and loans are reviewed on a

daily basis. The ASRS receives 75% of the securities lending revenue, Mellon receives 25%. Fiscal year 2001 yielded a net earning of \$8,453,680 and \$7,306,455 in fiscal year 2002.

10. Board Requests for Agenda Items

Dr. Chuck Essigs informed the Board that the Health Insurance/Long-term Disability Committee will be holding a meeting on October 1. One of the items that the Committee will discuss is the identification of staff and system members to create a working group to look at health insurance.

Mr. Karl Polen reported that there are several Investment Review Committee meetings planned. The Committee will be conducting a search for Large Cap managers and for TAA managers.

11. Call to the Public

Dr. Robert Letson, University of Arizona Retiree Association, addressed the Board from the Tucson office. Dr. Letson commented regarding the court proceedings that the ASRS is involved in. Dr. Letson also commented on the committee of retired and active members that was proposed several years ago and that he believes this would be a good committee to begin.

12. The next ASRS Board meeting is scheduled for Friday, October 19, 2002 at 8:30 a.m. in the 10th floor Board Room of the ASRS Phoenix Office, 3300 North Central Avenue, Phoenix, Arizona 85012

Mr. Maguire also pointed out that a December 20 meeting has been added to the Board calendar.

13. Adjournment of the ASRS Board.

Mr. Alan Maguire, Chairman, adjourned the September 20, 2002, meeting of the ASRS Board at 10:48 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary Date

LeRoy Gilbertson, Director Date